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SUBJECT: BULGARIA GOES HOLLYWOOD . . . FINALLY

Ref: Sofia 0080

¶1. (SBU) SUMMARY. In a suspenseful tale full of intrigue, deceit and high-powered bluffs, Los Angeles-based NuImage films finally received the keys to the Boyana Film Studios on November 16, a year-and-a-half after they were selected as the winner of a three-way bid for the Bulgarian state film company. Sustained embassy pressure in the face of strong-arm tactics from special interests was necessary in order to keep the American company from unfairly being forced out in a non-transparent process. While the Hollywood happy-ending of this story turned out good for American investment - specifically for this company and for gaining Bulgaria exposure to the world through the wide screen - this process has been a textbook example of what Bulgaria should not/not do to attract Western companies. END SUMMARY

¶2. (SBU) Bulgaria's Privatization Agency (PA) transferred 95 percent of the shares of Boyana Film Studios to NuImage on November 16, 2006, about a year-and-a half after NuImage was selected by an interagency committee as the bid winner on technical and financial criteria. The long delay resulted from non-transparent "negotiations" that started after the privatization agreement was initialed in August 2005. The Privatization Agency, at times at the behest of unknown demandeurs, routinely imposed significant additional conditions that were reluctantly accepted by NuImage. While positing many legal, political and cultural objections to the sale, underlying much of this opposition was a desire to lay hands on all or part of the studio's real estate on the lower slopes of Mount Vitosha, the last large undeveloped tract of land in Sofia's most desirable suburb.

¶3. The final transfer of shares was made after NuImage paid the EUR 6.25 M price under the privatization contract, presented a bank guarantee for post-privatization commitments, and mortgaged 30.2 hectares of Boyana's land in favor of the state at a price of EUR 300 per sq m. Per the agreement, NuImage must continue to make movies for 20 years, and may not sell off the land as real estate. This latter clause was key to NuImage getting the deal, but has also confused those not trained in market-economics who complain that the Bulgarian government "gave away" the film studio at prices much cheaper than market value. It will take time for the Bulgarian public to realize that land which must be used for a specific purpose can not sell for the same prices as un-restricted land upon which anything can be built. Also, resolving this deal should help speed restitution claims over the property and show people that through new, higher paying jobs, private investment can lead to increased economic opportunities for all.

¶4. NuImage is obliged to invest at least EUR 15.6 M in Boyana over a three-year period, invest at least EUR 11.4 M in the first year alone, and produce no less than two full-length motion pictures and 20 minutes of animation annually over the next five years. NuImage Bulgaria Manager David Varod has pledged to greatly surpass these requirements in creating "the biggest film studio in Europe." Currently, NuImage is shooting a \$ 15 M film written by and starring John Cusack, and also with Marisa Tomei and Hilary Duff. Varod states that he will spend \$50 to \$100 Million in Bulgaria in 2007

depending on how fast he can build larger studios that can handle big-budget movie production.

COMMENT

15. (SBU) While not a large deal in terms of purchase price and required investment, the Boyana privatization represents the disconnect between the desire at the highest levels in the Bulgarian Government for increased American investment, and the reality of how hard it can be at times for U.S. companies to invest here. NuImage resisted the temptation several times to pack their bags and move to neighboring Romania after seven years of film production work in Bulgaria when it appeared that certain self-interested parties would prevail. After lawsuits, counter suits, threats from both sides, and through it all, pressure from the Embassy and Washington visitors, the Bulgarian government finally pushed this deal through.

Looking optimistically at this saga, we hope this represents the final throes of an old way of doing business as Bulgaria fully enters the "Western club" she it joins the European Union in January. As we repeatedly told the GOB during this epic drama, signing an agreement in Bulgaria should be the end of negotiations, not the beginning.

BEYRLE